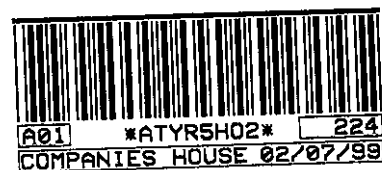


St James's Gate Holdings Limited
FINANCIAL STATEMENTS
18 Month Period Ended 30 June 1998

Company Registration No. 989164



ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report, together with the audited financial statements, for the eighteen months ended 30 June 1998. On 17 December 1997 Grand Metropolitan Public Limited Company merged with Guinness PLC to form Diageo plc, which as a result became the ultimate parent of the company.

Activities

The company is an investment holding company. The directors foresee no material changes in the nature of the company's activities. Details of changes in investments during the eighteen months are set out in note 7 of the financial statements.

Year 2000

The Diageo group has recognised that Year 2000 is a major issue and has established a Year 2000 team, which has made good progress in establishing an effective post-integration framework for its Year 2000 programme, having completed their impact assessment and project plans. Based on the work detailed above, the company believes that once the testing and conversion of computer systems is complete, internal systems and equipment will not give rise to significant operational problems as a result of the Year 2000 issue.

The Diageo group is also working with key business suppliers, joint distribution arrangement partners and customers to prepare for the Year 2000 and is establishing contingency plans for Year 2000 failures by such business partners. Contingency plans are also being prepared for unexpected Year 2000 failures that may affect business critical systems and equipment.

The general expectation by those who have studied best practice in managing the Year 2000 problem is that even the best run projects will face some Year 2000 compliance failures. There can be no assurance that Year 2000 projects will be successful or that the date change from 1999 to 2000 will not adversely affect the company's operations and financial results. The Diageo group may also be adversely affected by the inability of third parties to manage the Year 2000 problem.

The Euro

In accordance with the Treaty on European Union, signed at Maastricht on 7 February 1992, the third stage of Economic and Monetary Union (EMU) commenced on 1 January 1999. At that time, a single currency, the 'euro', was introduced. The Diageo group's euro-readiness is being managed as a discrete business project, the group has systems and procedures in place which will enable it to conduct euro transactions appropriate to local market requirements.

The Diageo group is also working actively with key business suppliers, joint distribution arrangement partners and customers in respect of EMU. In addition, monetary union may have a significant impact on macroeconomic factors, including interest and foreign exchange.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

DIRECTORS' REPORT (continued)

The Euro (continued)

Looking forward, key commercial risks have been analysed, with a view to minimising the impact through active management in these areas over the EMU transition period and beyond. However, there can be no assurance that the euro will not have a negative impact. The impact of future entry to EMU of other European countries (particularly the UK) has been similarly analysed.

Financial

The financial year end of the company has been changed to 30 June from 31 December, and the results for the period shown on page 8 are for the eighteen months from 1 January 1997 to 30 June 1998.

An interim dividend of £77,530,000 (1996: £51,534,000) was paid during the year. The directors do not recommend the payment of a final dividend (1996: *£nil*). No preference dividend was paid in the period (1996: £54,146,000 which included £16,651,000 of 1995 dividends paid in 1996).

Directors

The directors who served during the period were as follows:-

B H Donaghey (appointed 21 February 1997, resigned 31 March 1998)
G W King (resigned 31 March 1998)
R King (appointed 31 March 1998)
R H Myddelton (appointed 31 March 1998)
M D Peters (appointed 31 March 1998)
K J Plummer (resigned 27 February 1997)

Subsequent to the period end P S Binning was appointed a director on 12 May 1999, A O Mullins was appointed a director on 30 April 1999 and resigned as a director on 12 May 1999 and R King resigned as a director on 12 May 1999.

Emoluments

None of the directors received any remuneration during the period in respect of their services as director of the company (1996: *£nil*).

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

DIRECTORS' REPORT (continued)

Directors' Interests

No director had any interest, beneficial or non-beneficial, in the share capital of the company or had a material interest during the period in any significant contract with the company or any subsidiary.

On 2 February 1998 the company's ultimate parent company, Diageo plc, made a capital repayment to shareholders equivalent to 70 pence per Diageo plc ordinary share, which took the form of the issue of 560 million redeemable B shares of 514 ¹²/₁₇ pence and the consolidation of existing shares from 25 pence ordinary shares to 28 ¹⁰¹/₁₀₈ pence ordinary shares. For every 1,000 existing ordinary shares shareholders received 864 consolidated ordinary shares and 136 B shares. On 30 June 1998, 540 million B shares had been redeemed. On 1 August 1998, the company converted the 18 million then remaining B shares into 12 million ordinary shares at a price of 725 pence per share.

The directors who held office at the end of the financial period had the following beneficial interests in the shares of the ultimate parent company, Diageo plc:-

Shares and awards over ordinary shares

| | Ordinary Shares of 25p or 28 101/108p | | B Shares | LTIP* Awards | RSP* Awards | MTEP* Awards |
|---------------|--|---------|----------|-----------------|----------------|-----------------|
| | 1.1.97 or date of appointment | 30.6.98 | 30.6.98 | 30.6.98 | 30.6.98 | 30.6.98 |
| R King | 323 | 1,422 | 50 | 10,700 | - | - |
| R H Myddelton | 20,049 | 20,049 | - | - | 18,081 | - |
| M D Peters | 2,703 | 2,733 | 224 | - | - | 1,434 |

Options

| | 1.1.97. or date of appointment | Granted during period | Exercised during period | 30.6.98 |
|---------------|--------------------------------------|--------------------------|----------------------------|---------|
| R King | 28,762 | - | - | 28,762 |
| R H Myddelton | 207,522 | - | - | 207,522 |
| M D Peters | 13,348 | - | - | 13,348 |

The directors held the above options under Grand Metropolitan PLC and Diageo plc share option schemes at prices between 314p and 494p per share exercisable by 2007.

The mid-market share price of Diageo plc shares fluctuated between 535p and 762.5p per share during the period. The mid-market share price on 30 June 1998 was 711p.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

DIRECTORS' REPORT (continued)

Directors' Interests (continued)

R H Myddelton had a potential interest in 4,975,416 shares subject to call options held by trusts to satisfy grants made under the various GrandMet share option schemes existing prior to the merger.

*** Notes**

Guinness Long Term Incentive Plan (LTIP). Under a plan approved by shareholders in 1996, awards over shares were conditionally granted to executives in 1996, with eventual transfer dependent on the performance of Guinness' Total Shareholder Return (TSR) against a comparator group of companies selected by the Guinness non-executive committee. Following the merger, performance targets attached to awards granted in 1996 were waived. The awards granted in 1997 are now dependent upon the performance of Diageo's TSR against the same comparator group of companies. Transfer of shares to executives will depend on the ranking of Diageo's TSR at the end of three years after the date of grant. If the company is ranked in the top 25% of selected companies, the maximum (100%) number of shares will be transferred. If it is ranked below the 60th percentile, no shares will be transferred. Transfers between these points are on a sliding scale. The last grants of awards under this plan were made in April 1997, and will lapse (at the latest) at the end of three years from date of grant.

The Guinness Medium Term Executive Plan (MTEP) was established in 1997. The plan was operated by the trustees of the Diageo plc Employee Incentive Trust 1997. Awards were made only to B grade executives and below world-wide. Performance conditions were tailored to the particular division within which the relevant executive worked and could be adjusted when they moved within the group. The plan was wound up in June 1998 with cash payments made to participants in September 1998 in lieu of shares. Proportionate payments were made based on the time elapsed since the plan was first established.

The Grand Metropolitan Restricted Share Plan (RSP). In 1997, GrandMet shares or ADSs were conditionally awarded to executives, with eventual release dependent on the performance of GrandMet's TSR compared with the TSR of the other FTSE 100 companies, over a minimum of three years. The allocation for UK directors was 100% of base salary, using the average share price for the calendar year prior to the date of the award. Following the merger, these awards have been converted to Diageo shares, and their release to participants will depend on the ranking of Diageo's TSR at the end of three years after the date of grant. If the company is ranked in the top 20% of selected companies, the maximum number of shares will be released; if it is ranked below the 50th percentile, no shares will be released. Releases between these points are on a sliding scale.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

DIRECTORS' REPORT (continued)

Secretary

On 31 January 1998 A P McCarthy resigned as secretary of the company and S M Bunn was appointed in her place.

By Order of the Board



S M Bunn
Company Secretary

8 Henrietta Place
London
W1M 9AG

30 June 1999

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

DIRECTORS' RESPONSIBILITIES
IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the report of the auditor, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditor in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss for the financial period.

The directors, in preparing the financial statements on pages 8 to 15, consider that the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to prepare the financial statements on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

**REPORT OF THE AUDITOR, KPMG AUDIT PLC,
TO THE MEMBERS OF ST JAMES'S GATE HOLDINGS LIMITED**

We have audited the financial statements on pages 8 to 15.

Respective responsibilities of directors and auditor

As described on page 6 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its profit for the 18 month period then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

London
30 June 1999

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

PROFIT AND LOSS ACCOUNT
for the 18 month period ended 30 June 1998

| | Notes | 1998 £'000 | 1996 £'000 |
|--|-------|-----------------------------|-----------------|
| Exchange gains/(losses) | | 211 | - |
| Operating profit | | 211 | - |
| Gain on sale of shares in subsidiaries | | - | 8,332 |
| Interest receivable | 3 | 486 | - |
| Interest payable | 4 | (20) | (77) |
| Income from shares in group undertakings | | 92,197 | 158,964 |
| Profit on ordinary activities before taxation | | 92,874 | 167,219 |
| Taxation on profit on ordinary activities | 6 | (9,668) | (3,745) |
| Profit on ordinary activities after taxation | | 83,206 | 163,474 |
| Equity dividend | | (77,530) | (51,534) |
| Non-equity dividend | | - | (37,495) |
| Profit for the period transferred to reserves | | 5,676 | 74,445 |

The results in the above profit and loss account relate entirely to continuing operations.

There is no material difference between the company's profit for the period and the historical cost profit and consequently no note of historical cost profits has been presented as part of the financial statements.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the 18 month period ended 30 June 1998

| | 1998 £'000 | 1996 £'000 |
|---|-----------------------------|-----------------------------|
| Profit for the financial period | 83,206 | 163,474 |
| Equity dividend | (77,530) | (51,534) |
| Non-equity dividend | - | (37,495) |
| | <u>5,676</u> | <u>74,445</u> |
| 1995 undeclared non-equity preference share dividend paid in 1996 | - | (16,651) |
| Retained profit for the year | <u>5,676</u> | <u>57,794</u> |
| Exchange adjustments | (79,151) | (110,996) |
| Unrealised surplus arising on revaluation of investments | 139,921 | 151,989 |
| Net addition to shareholders' funds | <u>66,446</u> | <u>98,787</u> |
| Shareholders' funds at start of the period | 2,736,681 | 2,637,894 |
| Shareholders' funds at end of the period | <u>2,803,127</u> | <u>2,736,681</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 18 month period ended 30 June 1998

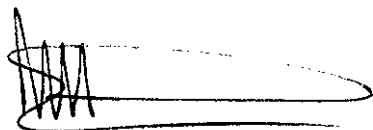
| | 1998 £'000 | 1996 £'000 |
|--|-----------------------------|-----------------------------|
| Profit for the financial period | 83,206 | 163,474 |
| Unrealised surplus arising on revaluation of investments | 139,921 | 151,989 |
| | <u>223,127</u> | <u>315,463</u> |
| Currency translation differences on foreign currency net investments | (79,151) | (110,996) |
| Total recognised gains and losses relating to the period | <u>143,976</u> | <u>204,467</u> |

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

BALANCE SHEET
at 30 June 1998

| | Notes | 1998 £'000 | 1996 £'000 |
|--|-------|-------------------------|-------------------------|
| Fixed assets | | | |
| Investments | 7 | 2,399,469 | 2,549,530 |
| Current assets | | | |
| Debtors - due within one year | 8 | 2,750,056 | 2,080,913 |
| Creditors - due within one year | 9 | (1,978,173) | (1,452,449) |
| Net current assets | | <u>771,883</u> | <u>628,464</u> |
| Total assets less current liabilities | | 3,171,352 | 3,177,994 |
| Creditors - due after more than one year | 10 | (368,225) | (441,313) |
| Total net assets | | <u>2,803,127</u> | <u>2,736,681</u> |
| Capital and reserves | | | |
| Called up share capital – equity | 11 | 365,010 | 10 |
| Called up share capital – non-equity | 11 | - | 365,000 |
| | | <u>365,010</u> | <u>365,010</u> |
| Share premium account | 12 | 1,005,371 | 1,005,371 |
| Revaluation reserve | 12 | 1,317,825 | 1,257,055 |
| Profit and loss account | 12 | 114,921 | 109,245 |
| | | <u>2,803,127</u> | <u>2,736,681</u> |

These financial statements on pages 8 to 15 were approved by the Board of Directors on 30 June 1999 and signed on its behalf by:



M D Peters, *Director*

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

NOTES

1. Accounting policies

Accounting Convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of the company's fixed asset investments and comply with applicable UK accounting standards.

The financial period end has been changed to 30 June 1998. Accordingly the current accounting period runs from 1 January 1997 to 30 June 1998.

The company is a wholly owned subsidiary of Grand Metropolitan International Holdings Limited. The ultimate parent company is Diageo plc and the company is included in the consolidated financial statements of Diageo plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transaction (but not balances) with entities that are part of the Diageo plc group or investees of the Diageo plc group.

The company is exempt from the requirement to prepare group accounts under section 228 of the Companies Act 1985 as its results are included in the consolidated accounts of Diageo plc. These financial statements present information about St James's Gate Holdings Limited as an individual undertaking and not about its group.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at the financial period end exchange rates, or if hedged forward, at the rate of exchange under the related forward currency contract. Exchange gains and losses are taken to the profit and loss account.

Investments

Investments in shares in group undertakings are stated at directors' valuation as described in note 7 to the accounts. Any unrealised surplus of revalued amount over cost is taken to a revaluation reserve.

Taxation

The charge for taxation is based on the profit for the 18 month period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

2. Operating costs

The company has no employees. The auditor's remuneration was borne by a group company.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

NOTES

3. Interest receivable

| | 1998 | 1996 |
|-----------------------------|-------------------|-----------------|
| | £'000 | £'000 |
| Loans to group undertakings | <u>486</u> | <u>-</u> |

4. Interest payable

| | 1998 | 1996 |
|-------------------------------|------------------|------------------|
| | £'000 | £'000 |
| Loans from group undertakings | - | 77 |
| Other loans | 20 | - |
| | <u>20</u> | <u>77</u> |

5. Directors interests

Details of the directors' interests are included in the Directors' Report on page 3.

6. Taxation

| | 1998 | 1996 |
|--|---------------------|---------------------|
| | £'000 | £'000 |
| Withholding tax | (342) | 3,701 |
| UK corporation tax on profits for the period at 31.3% (1996: 33%) | 6,948 | 73 |
| Prior Year | 3,062 | - |
| Deferred taxation | - | (29) |
| | <u>9,668</u> | <u>3,745</u> |

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

NOTES

7. Investments

| | Shares in group undertakings £'000 | Other investments other than loans £'000 | Total £'000 |
|----------------------------|---|---|------------------------|
| At 1 January 1997 | 2,549,491 | 39 | 2,549,530 |
| Transfers | 39 | (39) | - |
| Exchange adjustments | (289,982) | - | (289,982) |
| Revaluation of investments | 139,921 | - | 139,921 |
| At 30 June 1998 | 2,399,469 | - | 2,399,469 |

In presenting the figures for the company's investments in shares in group undertakings the Directors have adopted the alternative accounting rules under the terms of Schedule 4 Part II Section C of the Companies Act 1985 and have revalued these assets at 30 June 1998. The directors have considered the value of each fixed asset investment on both an earnings basis and on a net asset value basis and have incorporated that value which they consider to be most appropriate in the financial statements.

The directors' valuations of some of the company's investments in shares in group undertakings have been denominated in a variety of currencies based on the valuation attributable to the various businesses owned by the group undertakings and the currencies in which those businesses hold their net assets.

Movements in the valuation of fixed asset investments attributable to currency movements are treated as exchange gains or losses and are taken to reserves.

If shown on an historical basis, investments would be stated at £1,471,174,000 (1996: £1,471,174,000).

The company's principal subsidiaries are:

| | Country of incorporation | Class and percentage of shares held |
|----------------------------------|-------------------------------------|--|
| A.G.S. Insurance Company Limited | Guernsey | Ordinary shares 100% |
| Baguin Limited | Bermuda | Ordinary shares 70% |
| Diageo Nederland BV* | The Netherlands | Ordinary shares 100% |
| Diageo Europa BV | The Netherlands | Ordinary shares 100% |
| U.L.M. Holdings Inc | Philippines | Ordinary shares 50.1% |

*Holding company of various overseas trading operations involved in the spirits and beer sectors.

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

NOTES

8. Debtors - due within one year

| | 1998 | 1996 |
|------------------------------------|-------------------------|-------------------------|
| | £'000 | £'000 |
| Amounts owed by group undertakings | 2,703,842 | 2,048,832 |
| Other debtors | 46,214 | 32,081 |
| | <u>2,750,056</u> | <u>2,080,913</u> |

9. Creditors - due within one year

| | 1998 | 1996 |
|------------------------------------|-------------------------|-------------------------|
| | £'000 | £'000 |
| Amounts owed to group undertakings | 1,971,226 | 1,425,556 |
| Corporation tax | 6,947 | 26,893 |
| | <u>1,978,173</u> | <u>1,452,449</u> |

10. Creditors - due after more than one year

| | 1998 | 1996 |
|------------------------------------|-----------------------|----------------|
| | £'000 | £'000 |
| Amounts owed to group undertakings | <u>368,225</u> | <u>441,313</u> |

11. Share capital

| | 1998 | 1996 |
|--|-----------------------|----------------|
| | £'000 | £'000 |
| <i>Authorised:</i> | | |
| Equity | | |
| 730,020,002 (1996: 30,000) Ordinary shares of 50p each | <u>365,010</u> | <u>15</u> |
| Non-equity | | |
| 375,000,000 9.125% Cumulative Redeemable | | |
| Preference shares of £1 each | <u>375,000</u> | <u>375,000</u> |
| <i>Authorised, called up and fully paid:</i> | | |
| Equity | | |
| 730,020,002 (1996: 20,000) Ordinary shares of 50p each | <u>365,010</u> | <u>10</u> |
| Non-equity | | |
| 375,000,000 9.125% Cumulative Redeemable | | |
| Preference shares of £1 each | <u>-</u> | <u>365,000</u> |

ST. JAMES'S GATE HOLDINGS LIMITED
18 months to 30 June 1998

NOTES

12. Reconciliation of movements in reserves

| | Share premium £'000 | Profit and loss account £'000 | Revaluation reserves £'000 | Total £'000 |
|---|---------------------------|-------------------------------------|----------------------------------|-------------------------|
| At 31 December 1996 | 1,005,371 | 109,245 | 1,257,055 | 2,371,671 |
| Profit for the 18 month period | - | 5,676 | - | 5,676 |
| Unrealised surplus arising on revaluation of investments | - | - | 139,921 | 139,921 |
| Exchange adjustments | - | | (79,151) | (79,151) |
| At 30 June 1998 | <u>1,005,371</u> | <u>114,921</u> | <u>1,317,825</u> | <u>2,438,117</u> |

The profit and loss account for the eighteen month period to 30 June 1998 includes exchange losses arising on retranslation of the historic cost of investments in shares in group undertakings of £343,111,000 (1996 - £178,699,000)

13. Ultimate holding and parent undertaking

The company's immediate parent company is Grand Metropolitan International Holdings Limited, a company incorporated and registered in England. The company's ultimate parent company is Diageo plc (formerly Guinness PLC), a company incorporated and registered in England.

The consolidated accounts of Diageo plc for the eighteen month period ended 30 June 1998, can be obtained from the Registered Office at 8 Henrietta Place, London W1M 9AG.